

ENTERPRISE BUDGETS



What is an Enterprise?

- A specific aspect of a business
- Each crop produced or each product sold
- Example: Grocery store enterprises
 - Vegetables
 - Fruits
 - Dairy, etc.



What is an Enterprise?

- Dairy farm enterprises:
 - Cows
 - Corn silage
 - Alfalfa hay
 - Pasture, etc.
- Lawn care business enterprises:
 - Mowing
 - Installation
 - Maintenance of lawns (spraying, etc.)



Why Do We Care?

- Income statements show the profitability for the entire business
 - *But you can't easily see where you are making or losing money from an income statement*
- Enterprise budgets show the profitability of each section of the business
- Enterprise budgets allow breakeven analysis



Enterprise Budgets

- Show the profitability of one specific aspect of the business
- Main sections:
 - Revenues
 - Operating (Variable) Costs
 - Gross Margin (Return Above Operating Costs)
 - Overhead (Fixed) Costs
 - Net Income (Return Above Total Costs)



Enterprise Budgets

- Usually constructed on a per-unit basis
 - Per acre
 - Per head (or per herd)
 - Per greenhouse
 - Per lawn (or per square foot)
- *Use the unit that makes it easiest for you*



Revenue Section

- Shows all products associated with that enterprise
 - Quantity produced & sold
 - Selling price or value of each product
 - Revenue for each product
 - Revenue = Quantity x Selling Price
- Total Revenue (Gross Revenues)
 - Total value of the enterprise's products



Operating (Variable) Expenses

- Shows all of the operating inputs used in that enterprise
 - Amount of each input used
 - Cost/unit of each input
 - Total cost for each input
- Total Operating Expenses
 - Total of all the operating expenses
 - Referred to as "short run cost of production"



Gross Margin

- aka Return Above Operating Costs
- Gross Margin
 - Total Revenues - Total Operating Costs
 - Shows how much money is left over after you pay all of your operating expenses
 - Your short term profits
- You want Gross Margin > \$0
 - If it's less than \$0, you are losing money for every unit you produce



Overhead (Fixed) Expenses

- Shows all of the overhead costs for the enterprise
 - Depreciation, rent, property taxes
 - Insurance, interest on term loans
- Total Overhead Expenses
 - Sum of all overhead expenses
- Total Expenses
 - Total Operating Expenses + Total Overhead Expenses



Net Income

- aka Return Above Total Costs
 - Long term profits
- Net Income = Total Revenues - Total Expenses
- Shows how much money is left after you pay all of your expenses for the enterprise



Using an Enterprise Budget

- Improving the profitability of the enterprise
 - Examine your top 5 expenses
 - What can you reduce without hurting production?
 - Can you increase your selling price?
 - Will this "scare off" some clients?
 - Can you increase production?
 - Without increasing costs too much

